

6 MAY 2014

AUSTRALIA, CHILE

URANIUM, BASE METALS, COPPER, GOLD

PRODUCER

EXCHANGE: ASX:AGS

CAPITAL PROFILE

Share price (A\$)		0.205
52 week range (A\$/share)	0.093 to	0.27
Number of shares (m)		341.2
Options and warrants (m)		1.0
Performance shares (m)		0.0
Fully diluted (m)		342.2
Market capitalisation (undiluted) (A\$m)		69.9
Debt (A\$m) - Jun 14F		0.0
Enterprise value (A\$m)		69.9
Major shareholders: Abbotsleigh (25.8%), Board and Management (30.5%)		
Avg monthly volume (m)		12
Cash (A\$m) - Jun 14F		14.1
Price/Cash (x)		4.9
Listed company options:		No



DIRECTORS

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Steve Johnston (Managing Director)
Ian Gandel (Non Exec Dir)
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ALLIANCE RESOURCES LIMITED

Price: A\$0.205

Flagship Four Mile uranium project (South Australia, AGS 25%) commenced production April 2014 at a rate of 2-3mlbpa U₃O₈. It is a superior quality ISR project with high grade resource: 70mlbs at 0.33% U₃O₈; potential LOM of +20 years. AGS target price is +\$0.50/share based on ISR producer peer comps.

INVESTMENT POINTS

- Flagship Four Mile uranium project (SA, AGS 25%) is adjacent to the operating Beverley In Situ Recovery (ISR) uranium mine (Heathgate). Quasar Resources Pty Ltd (Quasar) is 75% owner and manager of the project and is affiliated with Heathgate.
- Four Mile production rate 2-3mlbpa U₃O₈; opex A\$40.13/lb (~US\$36/lb); experienced operations team. First uranium sales expected Jul '14.
- It is a high grade ISR project with a large resource base: 70mlbs at 0.33% U₃O₈ (18mlb AGS share) plus Exploration Target upside of 41-78mlbs.
- AGS preferred development model is for a 5mlbpa stand-alone plant (subject to market conditions). An Optimisation Study (2011) indicated capex of A\$200m, opex A\$21.53/lb.
- Strategic alliance with ITOCHU Corporation (Jul '12): option to acquire a 40% stake in AGS to fund the standalone plant, subject to a favourable outcome in litigation with Quasar.
- Litigation with Quasar for restitution of 75% of the Four Mile Project due to go to trial 30 June 2014 and run 5 weeks. A positive result for AGS could also drive a significant share price rerating.
- No debt. Cash \$20m (Apr '14), projected to cover start-up cash calls through 2014. Assuming AGS has cash of \$8m in July, a modest capital raising could be required FY15, subject to the uranium price.
- RCR's target price for the company is +\$0.50/share based on comparable international ISR peers that are trading at US\$10-25/lb (MI resource). AGS is currently trading below these at US\$6.34/lb (MI resource).
- The uranium price is US\$30.75/lb (spot); US\$45/lb (contract). Challenging market conditions are expected to persist short- to mid-term, though a turnaround is anticipated as Japanese reactors start to come back online, possibly 2H14. Significantly, uranium fund UPC raised C\$57.6m Feb '14 in a sign that investors are looking to a market turnaround. Positive fundamentals longer term are expected to drive the incentive price above US\$60/lb.

COMPANY STATISTICS

YEAR END: June	2012a	2013a	2014F	2015F	2016F
Uranium Price - Spot (US\$/lb)	51	43	34	35	47
Uranium Price - Contract (US\$/lb)	62	58	49	45	52
A\$/US\$	1.04	1.02	0.91	0.92	0.92
Equity Production (mlb)	0	0	0.04	0.68	0.76
Equity Production (kt)	0	0	20	309	347
EBIT (A\$m)	-4	-7	-5	-6	2
Net Profit (reported) (US\$m)	-4	-7	-4	-5	-3
EPS (reported) (cps/share)	-1.1	-2.1	-1.2	-1.4	-0.8
CFPS (cps/share) [^]	-0.1	-0.1	-1.5	-1.5	0.9
Dividends (cps/share)	0.0	0.0	0.0	0.0	0.0
PER (x)	nmf	nmf	nmf	nmf	nmf
P/CF (x)	nmf	nmf	nmf	nmf	0.0
Yield (%)	0	0	0	0	0
EV/EBITDA (x)	nmf	nmf	0.0	0.0	0.0
[^] EBITDA					

COMPANY COMMENT

Overview: The company has a 25% interest in the recently commissioned Four Mile uranium project (SA, Quasar – 75%). It also has exploration projects in NSW and Chile. AGS changed its name in Oct '03 from Alliance Energy Limited (listed ASX 1994).

Four Mile Project (SA): (Uranium, South Australia, AGS 25%). Situated 550km from Adelaide and 8km from the existing Beverley ISR uranium mine, owned by Heathgate Resources (affiliate of Quasar). Mineralisation consists of two tabular sandstone uranium blocks, 1-8m thick at a depth of ~150-210m. The project is amenable to low cost ISR mining which is also used successfully at the adjacent Beverley uranium mine. ISR is widely used technology and accounts for about 45% of uranium production globally. Compared to other ISR projects, Four Mile has exceptionally high uranium grades (0.33% U₃O₈ - more than three times that frequently encountered in ISR projects). The resource is 9.8mt at 0.33% U₃O₈ for 70mlbs U₃O₈ (18mlbs AGS share) combined at Four Mile West (FMW) and Four Mile East (FME). Both deposits remain open for potential resource expansion to the west. In addition, **Four Mile Northeast (FMNE)** has an Exploration Target of 41-78mlbs U₃O₈ (Feb '14). The global resource potential for the Four Mile Project exceeds 51-67kt (112-149mlbs) U₃O₈.

Four Mile Project Start-up: Production commenced April 2014 at FME at a rate of 2-3mlbspa U₃O₈ with toll treatment at Heathgate's adjacent Beverley uranium mine. Subject to confirmation by the Joint Venture, production is expected to extend to FMW in 2015, or possibly FMNE which is directly adjacent to Heathgate's satellite plant at Pannikan. Based on resources at FMW and FME, project LOM is 29 years at a production rate 2mlbspa U₃O₈; or 19 years at 3mlbspa.

A revised start-up plan was provided to AGS Jan '14 for production through to Dec '14 indicating uranium production of 1.9mlbs for CFY14, sales 1.5mlbs; cash expenditure \$76.7m (\$19.2m AGS share and including \$12m that is classified as exploration by AGS (\$3m AGS share)), opex \$31.48/lb plus \$8.65/lb wellfield development for total costs of \$40.13/lb (US\$36/lb (C2)), and sales price US\$44.42/lb U₃O₈.

Given the one month delay in startup awaiting final production permits, and the decline in the uranium price since January, Quasar's budgeted revenue targets are unlikely to be met CY14, though no further market guidance has been provided.

It is anticipated that AGS will start to receive project revenues Jul '14. Based on RCR uranium price projections (see uranium market outlook), project losses are anticipated through 1H15 (\$20m loss forecast CY14, AGS share \$5m). Assuming AGS has cash of \$8m in July, a modest capital raising could be required FY15, subject to the uranium price.

Recent Project History: Construction on the project has had two 'false' starts: in 2008 and 2012. The reasons for this are not disclosed though appear related to legal wrangles between Quasar and AGS. In 2009, AGS undertook a scoping study independently of Quasar to review different development options for Four Mile and in 2011 undertook an Optimisation Study (prepared by Adelaide Control Engineering) which showed the viability of a **standalone plant with a production rate of 5mlbspa U₃O₈**: indicative capex A\$210m, opex A\$21.53/lb (inclusive of wellfield development costs(C2)). This is currently AGS's preferred development option (subject to market conditions) and compares with a 3mlb satellite toll treatment option proposed by Quasar in its feasibility study in 2008: capex A\$98m, opex A\$38.80/lb (C2).

AGS has aligned with **strategic partner ITOCHU** (Jul '12) which has the option to acquire a 40% stake in AGS to fund a standalone project at Four Mile, subject to a positive outcome in litigation with Quasar.

Quasar Legal Proceedings: AGS is seeking damages from Heathgate and damages and restitution of the 75% interest in the exploration licence over Four Mile held by Quasar, arising from Quasar's and Heathgate's alleged failure to disclose information concerning the prospectivity of part of the tenement. A trial in the Federal Court is listed to commence 30 June 2014 and run for 5 weeks. A court win could drive significant share price upside for AGS.

Valuation: Our NAV for AGS is A\$0.74/share (see RCR valuation table) based on Four Mile (FME and FMW) after tax NPV₁₀ of A\$650m (US\$60lb U₃O₈ long term, AU:US 0.90; \$162m AGS share) assuming 3mlbspa U₃O₈ production, 70% recovery, 80% average inferred resource conversion, satellite/toll treatment and production costs of A\$40/lb (US\$36/lb (C2)). This equates to a valuation of US\$18.22 /lb (MI resource) for Four Mile. FMNE is valued at US\$3.00/lb based on the Exploration Target. There is further potential valuation upside with ongoing exploration success, and project optimization potentially to incorporate a standalone plant with a production rate of 5mlbspa U₃O₈.

AGS is trading at US\$6.34/lb (MI resource at Four Mile) based on its current share price of \$0.20. The company appears **lowly valued against its peers** with recently commissioned ISR projects in Wyoming, viz: TSX:URE which recently commissioned Lost Creek and is trading at ~US\$25/lb (MI resource); and TSX:URZ which recently commissioned Nichols Ranch which is trading at ~US\$10/lb (MI resource) (see peer comparison table).

AGS valuation at the current spot price (US\$30.75/lb U₃O₈ and AU:US 0.93 AGS) is A\$0.25/share; discounting the average of the current spot and LT price (spot US\$30.75; LC US\$45/lb), the valuation is A\$0.47/share, further underscoring our \$0.50/share target price.

Uranium Market Outlook: The uranium spot price is US\$30.75/lb (28 April); the contract price is US\$45/lb (30 April). RCR uranium spot price forecasts are CY14 US\$33/lb, CY15 US\$41/lb, CY16 US\$54/lb, long term US\$55/lb (LT contract price US\$65/lb). Challenging market conditions are expected to persist short- to mid-term due to the impact of continued delays in restarting Japanese reactors and surplus inventory disposals by Japan and Germany. UPC raised C\$57.6m Feb '14 - a signal that investors are starting to look to a market turnaround.

A price resurgence to US\$60/lb is anticipated 2H16, driven by renewed demand from Japan and ongoing global growth in nuclear reactor construction; currently there are 72 reactors under construction globally and 482 planned and proposed (WNA April 2014). Growth is expected to remain particularly strong in Asia, led by China with official installed nuclear capacity projections of 70-80 GWe by 2020, and 200 GWe by 2030. This compares with a 17 GWe capacity today (20 reactors). China has 29 reactors currently under construction - 16 of which are expected online in 2014-15. Demand for uranium is expected to increase from 170mlbspa U₃O₈ forecast in 2014 to 252mlbspa by 2030 (WNA 2013 reference case). Longer term, incentive prices above US\$60/lb are expected to be supported by the opening of a marked supply gap and growing global urgency to reduce carbon emissions.

Investment Comment: RCR's target price for AGS is 0.50/share based on Four Mile (FME and FMW) valuation of US\$10/lb (MI resource) in line with market values of producing international ISR peers. At US\$25/lb (MI resource, comparable to TSX:URE) AGS's valuation rises to A\$0.85/share. In our view, the rerating is justified given Four Mile is now in production, is exceptionally high grade, has a large inferred (and indicated) resource with excellent exploration upside, and an experienced operations team.

RESERVES AND RESOURCES/MINERALISED MATERIAL

Code for reporting mineral resources - Australia (JORC)

Uranium U ₃ O ₈	Classification	Project Equity	Ore Mt	U ₃ O ₈ %	GT Cut Off m%	U ₃ O ₈ Kt	U ₃ O ₈ Mlb	U ₃ O ₈ Eq Mlb
						0.0	0.0	0.0
Reserves								
Resources*								
Four Mile West	Indicated	25%	4.1	0.34	0.10	14	32	8
Four Mile West	Inferred	25%	1.5	0.31	0.10	5	9	2
Total Four Mile West		25%	5.6	0.34		19	41	10
Four Mile East	Inferred	25%	4.1	0.31	0.10	13	29	7
Total		25%	9.8	0.33		32	70	17

Exploration Target

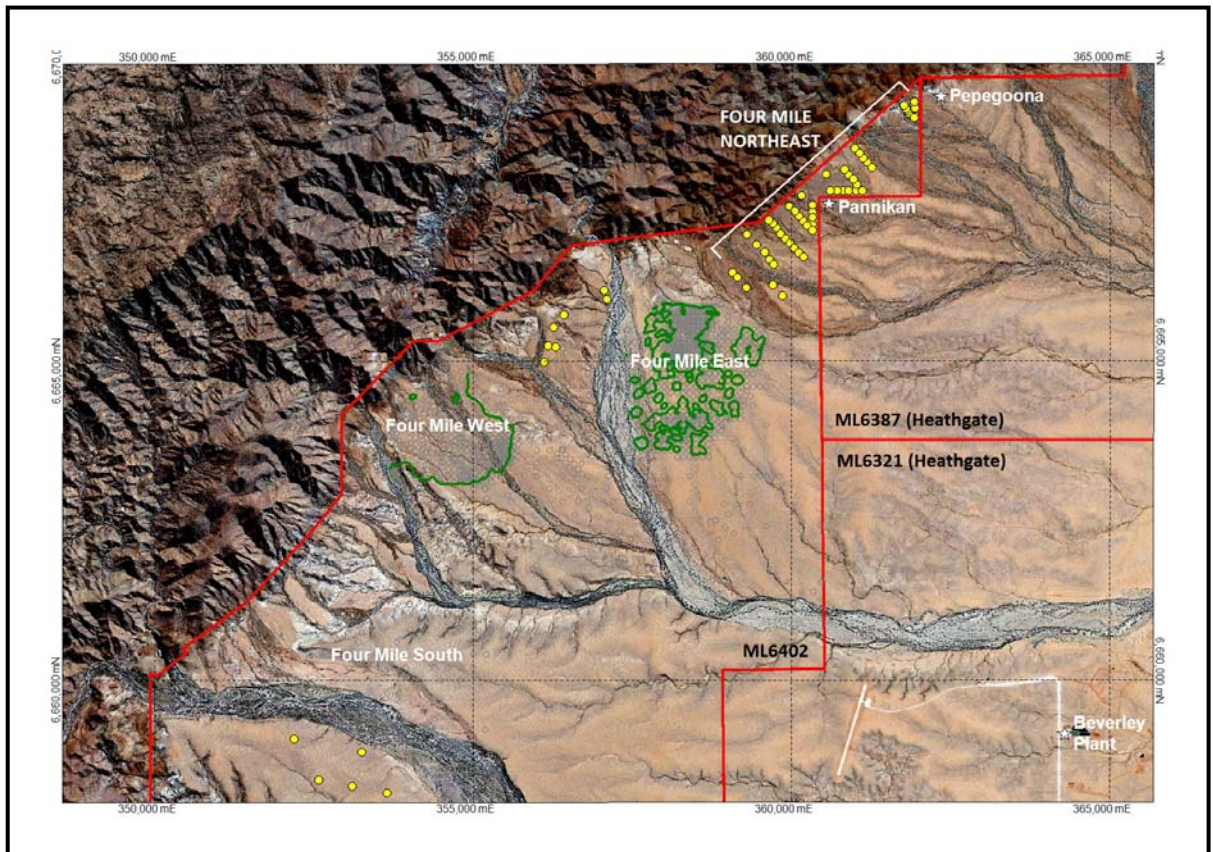
Four Mile Northeast	Exploration Target	25%	8-18	0.20-0.24		19-35	41-78	10-20
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*Apparent multiplication mismatches are due to rounding of all entries to 2 significant figures.

KEY PROJECTS

Project	Ownership/ Option	JV Partner	Target Type	Process Route	Project Status	Location
Four Mile Project	25%	Heathgate	U	ISR	Production	South Australia
East Frome Project	100%	na	Cu-base metals	na	Early Expl.	NSW
Cabeza de Vaca	90/100%		Cu-Au	na	Mid Expl.	Chile

Four Mile Project: Showing Four Mile East where production commenced April 2014, Four Mile West (which could come into production 2015), and Four Mile Northeast which has an Exploration Target of 41-78mlbs U₃O₈ adjacent to Quasar's Pannikan satellite plant.



ALLIANCE RESOURCES LIMITED VALUATION

	Equity (%)	Base Resource Val'n (US\$/lb)	Base NAV (A\$m)	NAV Factor (%)	Adjusted Value (A\$m)	Adjusted Uranium Price Sensitivity (A\$m)			
Assumptions									
LT Realised Uranium Price : US\$/lb			60		60	40	50	70	80
LT Exchange Rate: AUUS			0.90		0.90	0.90	0.90	0.90	0.90
Projects									
Four Mile Project (FME and FMW) : NPV @10%	25%	8.33	162	100%	162	78	121	203	244
Resources and Exploration									
Four Mile Northeast	25%	3.00	45		45	23	34	54	63
Other			2		2	1	1	2	4
Sub-total Exploration			47		47	24	35	56	67
Investments									
	No. Shares (m)	Price (\$/share)							
+ 21% of Octagonal Resources Ltd (ASX:ORS)	22	0.05	1		1	1	1	1	1
Other Assets									
+ Cash			14		14	14	14	14	14
+ Tax losses			38		38	38	38	38	38
Liabilities									
- Debt			0		0	0	0	0	0
- Corporate			9		9	9	9	9	9
- Reclamation			0		0	0	0	0	0
AGS Net Assets			252		252	144	198	302	354
Fully diluted shares (m)			342.2		342.2	342.2	342.2	342.2	342.2
Cash on Option Conversion^			0.5		0.5	0.5	0.5	0.5	0.5
AGS Net Asset Value per share : A\$/share			0.74		0.74	0.42	0.58	0.89	1.04
AGS Net Asset Value Diluted : A\$/share dil			0.74		0.74	0.42	0.58	0.88	1.04
^Options are out of the money: 1m options have a strike price of 50cps (\$0.5m); expiry April 2015.									

ALLIANCE RESOURCES LIMITED PEER COMPARISON – EV/RESOURCE RATIO (US\$/lb)

	Shares m	Share Price			Debt LC\$m	Cash LC\$m	Other LC\$m	Enterprise Value LC\$m	Project Equity %	Opex^		Capex US\$m	Uranium Resource (direct interest)			EV/resource US\$/lb
		Current LC/sh ²	52w Hi-Lo LC/sh	LC/sh						Pre tax US\$/lb	Incl. tax US\$/lb		M+I, I	U ₃ O ₈ %	mlbs	
Ur-Energy Inc.	128.7	1.22	2.21	0.79	44.5	5.2	196					MII	0.049	30	7.19	
[Comment: (TSX:URE) Lost Creek in production; commissioning commenced August 2013.]																
<i>Lost Creek¹ (WY, USA)</i>	na	na					190	100	26.7	29.7 ^{LC}	32 ^{LC}	MII	0.052	13	15.62	
						6						M+I	0.053	8.7	24.17	
Uranerz Energy Corporation	86.1	1.63	2.18	0.84	22.0	13.1	149					MII	0.105	19	8.63	
[Comment: (TSX:URZ) Nichols Ranch in production; commissioning commenced April 2014.]																
<i>Nichols Ranch² (WY, USA)</i>	na	na					147	various	24 ^N	35 ^N	40 ^N	MII	0.104	19	8.49	
						2						M+I	0.103	15.7	10.30	
Peninsula Energy Limited	3420	0.029	0.038	0.02	11.3	10.7	100					MII	0.080	111	0.97	
[Comment: (ASX:PEN) Lance Project under construction; final permits received Apr '14 (SML). First production expected 4Q14.]																
<i>Lance Project³ (WY, USA)</i>	na	na					93	100	26.4 ^L	34.8 ^L	78 ^L	MII	0.048	54	1.86	
						7						M+I	0.050	17.2	5.80	
Anatolia Energy Limited	234.7	0.08	0.100	0.032	0	2.1	17					MII	0.117	17	1.05	
[Comment: (ASX:AEK) Temrezli funding to be finalised, fast track government and land holder approvals anticipated. Project is high grade.]																
<i>Temrezli Project (Turkey)</i>	na	na					17	100	22.3 ^T	24.2 ^T	30.6 ^T	MII	0.117	17	1.03	
						0						M+I	0.142	10.8	1.65	
Alliance Resources Limited	341.2	0.205	0.270	0.093	0	19.8	50					MII	0.117	17	3.17	
[Comment: (ASX:AEK) Four Mile Project in production; commissioning commenced Apr '14. Project is high grade.]																
<i>Four Mile Project (Australia)</i>	na	na					47	25		36		MII	0.33	17.5	2.90	
						3						M+I	0.34	8.0	6.34	

LC: local currency

²Closing share prices as at 6 May 2014.

AUUS: 0.93 Blue indicates comps based on Measured, Indicated and Inferred Resource

CAUS: 0.91 Red indicates comps based on Measured and Indicated Resource

¹ Adjusted EV: URE EV-cash-\$6m (Lost Soldier, other projects.)

² Adjusted EV: URZ EV-cash-\$2m (other WY properties est.)

³ Adjusted EV: PEN EV-cash-\$7m (Karoo valuation est.)

[^] Opex (pre tax) inclusive of sustaining capital - WWC Engineering presentation in AEK PEA July 2013; tax numbers incorporate royalties and indirect taxes - RCR/AEK estimates.

^{LC} Lost Creek PEA April 2012.

^L Lance Optimisation Study March 2013.

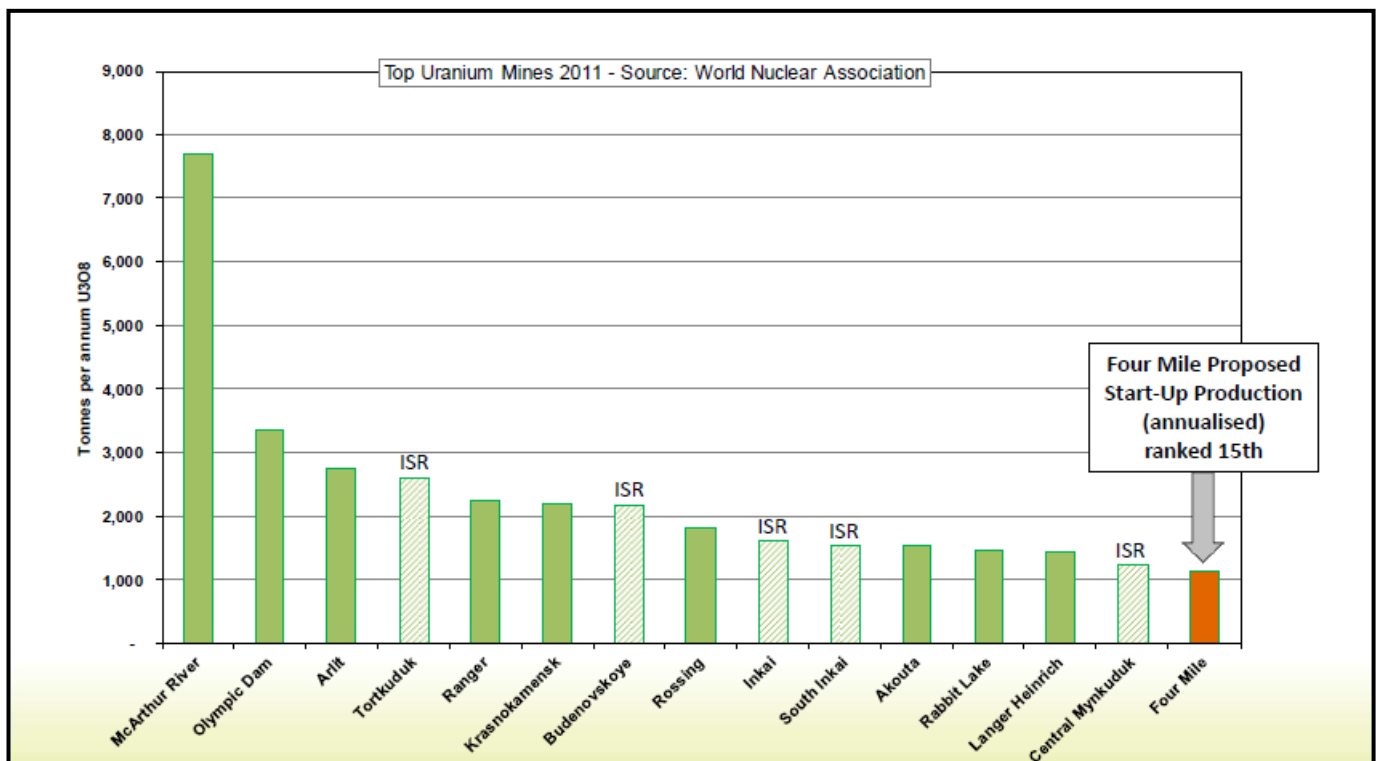
^N Nichols Ranch PEA Update July 2009.

^T Temrezli PFS target range (released WWC Engineering July 2013).

The AGS Optimisation Study in 2011 for a standalone 5mlbpa U₃O₈ ISR project indicated capex of A\$210m; opex A\$21.53/lb (C2). This compares with Quasar’s 3mlbpa project with revised capex of A\$98m and opex A\$38.80/lb (C2) which incorporates toll processing at the Beverley uranium plant. AGS prefers development of the 5mlbps standalone plant option (subject to market conditions); it has entered into an alliance with ITOCHU to fund development pending the outcome of a court challenge with Quasar.

ISR Case	Study Type	ACEng Estimate		Quasar Estimate	
		Capital (ASM)	Operating (A\$/lb U ₃ O ₈)	Capital (ASM)	Operating (A\$/lb U ₃ O ₈)
Satellite Plant ¹ @ 3Mlbp	Scoping	96	31.33 ¹	98 ²	38.80 ²
Standalone Plant @ 5Mlbp	Scoping	168	21.73		
Standalone Plant @ 5Mlbp	Optimisation	210	21.53		

Four Mile Project ranks among the largest uranium projects in the world.



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